

**DRUG STORE PROPERTIES
MEDIAN ASKING CAP RATES**

Tenant	Q3 2016 (Previous)	Q3 2017 (Current)	Basis Point Change
Walgreens	5.80%	6.00%	+20
CVS	5.70%	5.65%	-5
Rite Aid	7.00%	7.25%	+25

**DRUG STORE PROPERTIES
ON THE MARKET**

Tenant	Q3 2016 (Previous)	Q3 2017 (Current)	Percentage Change
Walgreens	135	192	42.2%
CVS	85	120	41.1%
Rite Aid	42	65	54.8%

**DRUG STORE PROPERTIES
MEDIAN ASKING PRICE**

Tenant	Median Asking Price	Median Price Per Foot
Walgreens	\$5,459,667	\$374
CVS	\$4,395,248	\$345
Rite Aid	\$4,060,779	\$303

MARKET OVERVIEW

Cap rates for the single tenant drug store sector increased 14 basis points in the third quarter of 2017 to 6.10% versus the prior year. Cap rates for CVS properties declined by 5 basis points to a 5.65% cap rate while Rite Aid and Walgreens properties experienced significant increases of 25 and 20 basis points to 7.25% and 6.00% respectively. The increase in cap rates experienced by Walgreens and Rite Aid properties can be best attributed to drug store landlords adding a supply of lower quality assets to the market.

Transaction volume in the drug store sector slowed over the past 18 months due to investor trepidation of the failed Walgreens and Rite Aid merger. Walgreens originally proposed a complete acquisition of Rite Aid; however those plans were halted due to regulatory concerns. The final iteration of the Walgreens and Rite Aid transaction calls for the acquisition of 1,932 Rite Aid stores, three distribution centers and existing inventory for \$4.38 billion by Walgreens. The acquisition has begun, however isn't expected to be fully completed until the spring of 2018. The unknown consequences of this acquisition caused investors to carefully monitor the cues from Walgreens to understand how store overlap and other real estate decisions will be solved in the future. Walgreens recently announced it will close 600 stores in 2018 – 2019.

The supply of drug store assets significantly increased in the third quarter of 2016 when compared to the prior year by more than 40%. Rite Aid properties experienced the greatest increase of approximately 55%. Rite Aid owners held on to Rite Aid assets in 2016 while there was still a possibility that Walgreens would acquire all Rite Aid stores. As the complete merger is no longer viable, these owners have brought a significant amount of supply to the market. The Federal Trade Commission has provided Walgreens and Rite Aid with clearance for the partial Rite Aid acquisition and there is some insight as to which Rite Aid stores will be acquired by Walgreens.

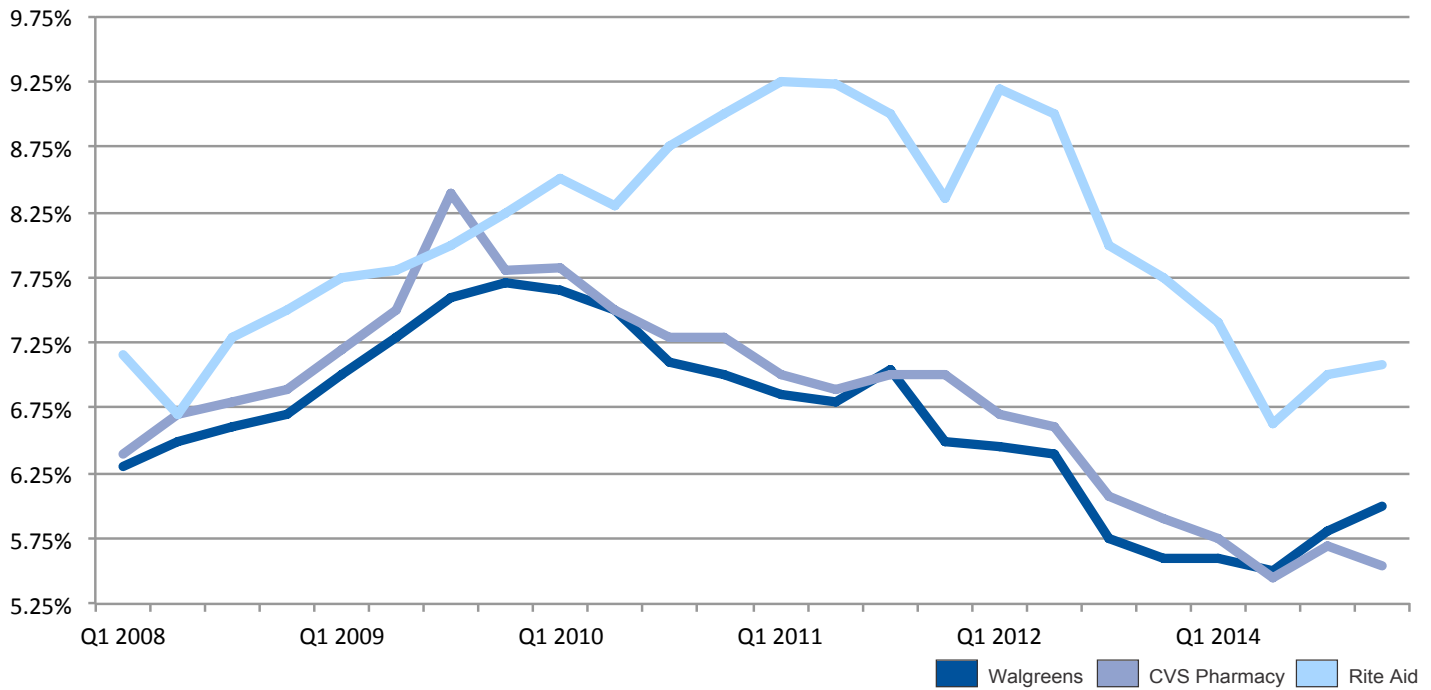
Transaction velocity for the remainder of 2017 in the net lease drug store sector should remain at a similar pace to 2016 as landlords and investors wait to see the ramifications of the Walgreens acquisition of more than 1,900 Rite Aid locations. However, drug store assets with strong sales performance in top tier markets and no Walgreens/Rite Aid overlap will garner demand from investors. Private and 1031 investors will continue to be the primary buyer of drug store assets. Investors will be carefully monitoring the news as it has been recently reported that CVS has made a bid to acquire health insurer Aetna and Amazon recently received wholesale pharmacy licenses in 12 states.



MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING

Term Remaining	Walgreens	CVS	Rite Aid
20+	5.17%	5.00%	N/A
15-19	5.70%	5.40%	N/A
10-14	6.00%	5.85%	7.10%
6-9	6.90%	6.60%	7.75%
5 & Under	7.20%	7.00%	8.75%

DRUG STORE CAP RATE TRENDS



MEDIAN NATIONAL ASKING VS. CLOSED CAP RATE SPREAD

Tenant	Closed	Asking	Spread (bps)
Walgreens	5.99%	5.77%	+22
CVS	5.83%	5.70%	+13
Rite Aid	7.87%	7.50%	+37

DRUG STORE VS. RETAIL NET LEASE MARKET CAP RATE

Sector	Q3 2016 (Previous)	Q3 2017 (Current)
Drug Store	5.96%	6.10%
Retail Net Lease Market	6.10%	6.11%
Drug Store Premium (bps)	14	1

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
8/16/17	Walgreens	Eagle River	AK	\$11,207,000	\$756	5.30%	21
7/21/17	Walgreens	Soldotna	AK	\$10,595,000	\$614	6.00%	18
9/25/17	Walgreens	Winter Park	FL	\$10,550,000	\$659	5.25%	15
8/10/17	Walgreens	Charleston	SC	\$9,664,000	\$605	5.20%	15
7/15/17	CVS Pharmacy	Ambler	PA	\$9,650,000	\$748	5.25%	20
7/19/17	CVS Pharmacy	Bowling Green	KY	\$7,700,000	\$582	5.14%	24
8/11/17	Walgreens	Houston	TX	\$7,561,904	\$510	5.25%	19
8/25/17	Walgreens	Columbia	SC	\$7,400,000	\$499	6.16%	17
8/23/17	CVS Pharmacy	Lawrenceville	GA	\$6,650,000	\$501	5.63%	17
7/14/17	CVS Pharmacy	Berwick	PA	\$6,445,230	\$537	5.25%	23
8/21/17	Walgreens	Waukesha	WI	\$6,400,000	\$408	6.50%	12
9/1/17	Walgreens	Great Falls	MT	\$6,360,000	\$429	5.99%	15
9/12/17	CVS Pharmacy	Lawrenceburg	TN	\$6,258,258	\$472	5.65%	18
8/16/17	Walgreens	Lumberton	NC	\$6,225,000	\$454	5.98%	13
9/12/17	Walgreens	Washington Court House	OH	\$6,200,000	\$418	6.13%	16
6/1/17	Walgreens	Brenham	TX	\$5,775,000	\$397	5.75%	15
7/7/17	Walgreens	Gresham	OR	\$5,700,000	\$415	5.70%	10
7/11/17	Walgreens	Ripon	CA	\$5,679,565	\$385	5.75%	14
8/2/17	Walgreens	Rogers	AR	\$5,580,000	\$377	5.86%	14
7/6/17	Walgreens	Noblesville	IN	\$5,520,000	\$372	6.00%	14
9/22/17	CVS Pharmacy	Jessup	MD	\$5,250,000	\$354	4.95%	25
8/25/17	CVS Pharmacy	Chicago	IL	\$5,238,000	\$481	6.00%	19
9/5/17	CVS Pharmacy	Highland Park	IL	\$4,800,000	\$363	4.95%	11
7/25/17	CVS Pharmacy	Chandler	AZ	\$4,444,000	\$372	6.70%	11
8/18/17	CVS Pharmacy	Stanley	NC	\$3,450,000	\$341	5.65%	20
7/25/17	CVS Pharmacy	Indianapolis	IN	\$3,169,000	\$244	7.38%	13
7/7/17	Walgreens (LH)	Louisville	KY	\$2,400,000	\$159	8.75%	3
8/18/17	Rite Aid	Erie	PA	\$2,119,000	\$187	8.50%	4
8/10/17	Rite Aid	Detroit	MI	\$1,850,000	\$161	7.57%	9
7/12/17	Rite Aid	Burlington	NC	\$1,835,500	\$187	7.87%	3
7/16/17	Walgreens	Chicago	IL	\$1,050,000	\$91	8.57%	4

COMPANY AND LEASE OVERVIEW

	Walgreens	CVS	Rite Aid
Credit Rating	BBB (Stable)	BBB+	B
Market Cap	\$69 billion	\$70 billion	\$1.6 billion
Revenue	\$117 billion	\$181 billion	\$32 billion
Number of Stores	8,175	9,709	4,500
Typical Lease Term	20 year primary term with fifty years of options	25 year primary term with six 5-year options	20 year primary term with six 5-year options
Typical Rent Increases	None	None in primary 10% increases in option periods	Increases of 10% every 10 years





FOR MORE INFORMATION

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